United Nations A/66/L.30*

General Assembly

Distr.: Limited
12 December 2011

Original: English

Sixty-sixth session
Agenda item 22 (a)**
Groups of countries in special situations: follow-up to the Fourth United Nations Conference on the Least Developed Countries

Draft decision submitted by the President of the General Assembly

Ad hoc working group to further study and strengthen the smooth transition process for countries graduating from the least developed country category

The General Assembly, recalling its resolutions 65/280 of 17 June 2011 and 65/286 of 29 June 2011, decides to adopt the terms of reference of the ad hoc working group to further study and strengthen the smooth transition process for countries graduating from the least developed country category annexed to the present decision.

* Reissued for technical reasons on 20 December 2011.

** In order for the General Assembly to take action on the present proposal, it will be necessary to resume consideration of sub-item (a) of agenda item 22 and to consider it directly in plenary meeting.

11-63429* (E) 211211

Please recycle

Annex

Terms of reference of the ad hoc working group to further study and strengthen the smooth transition process for countries graduating from the least developed country category

Background

At the Fourth United Nations Conference on the Least Developed Countries, held in Istanbul, Turkey, from 9 to 13 May 2011, Member States adopted the Istanbul Declaration[1] and the Programme of Action for the Least Developed Countries for the Decade 2011-2020.[2] As set out in paragraph 27 of the Programme of Action, the overarching goal of the Programme of Action is to overcome the structural challenges faced by the least developed countries in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category. The Programme of Action also sets the ambitious goal of enabling half the number of least developed countries to meet the criteria for graduation by 2020 (para. 28).

The Programme of Action is based on commitments, standards of accountability and partnerships established by least developed countries and their development partners with the aim of pursuing or taking action towards the fulfilment of the above-mentioned goal. This implies supportive and integrated policies in a wide range of relevant economic, social and environmental areas. The Programme of Action is the first global programme of action for the least developed countries containing an entire chapter on graduation and smooth transition (chap. VI), in addition to a specific objective regarding graduation prospects (para. 28).

The category of least developed countries was established in 1971 by the General Assembly. Since that time, the eligibility criteria for the least developed countries (gross national income per capita, a human assets index and an economic vulnerability index) have been periodically refined by the Committee for Development Policy of the Economic and Social Council. The indicators used to assess the criteria used to identify the countries that belong to the category of least developed countries measure long-term structural weaknesses. The selected indicators are sufficiently stable over time to minimize the likelihood that a country will change its status from least developed country to non-least developed country and vice versa owing to dramatic fluctuations in any single criterion.

After graduation rules were established in 1991, additional principles were adopted to ensure that graduation would take place only after a country's development prospects had improved significantly and that the country would be able to remain on that development path. There is, therefore, an intentional asymmetry between the inclusion and graduation criteria, which can be summarized as follows (based on the *Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures*):[3]

---

[1] *Report of the Fourth United Nations Conference on the Least Developed Countries, Istanbul, Turkey, 9-13 May 2011* (United Nations publication, Sales No. 11.II.A.1), chap. I.

[2] Ibid., chap. II.

[3] United Nations publication, Sales No. E.07.II.A.9.

(a) Thresholds for graduation are higher than those for inclusion;

(b) In order to be eligible for graduation, a country must cease to meet not just one, but two of the three inclusion criteria;[4]

(c) Eligibility for inclusion is ascertained once, whereas eligibility for graduation has to be observed over two consecutive triennial reviews;

(d) Inclusion requires approval from the country concerned, whereas graduation does not.

The main benefits received by least developed countries

Special support measures for least developed countries are implemented in different ways by the various development partners, including bilateral donors and multilateral organizations.

Official development assistance

Support measures in the area of bilateral development financing, technical cooperation and other forms of assistance usually involve voluntary commitments by donor countries. As at 2009, the target of providing 0.15 per cent of the gross national product as official development assistance to least developed countries as a group had been met by only nine donors of the Organization for Economic Cooperation and Development and the higher threshold of 0.2 per cent had been met by only seven donors. On average, the members of the Organization for Economic Cooperation and Development provided 0.10 per cent of their gross national income to least developed countries in 2009, an increase from the 0.05 per cent they had provided in 1999. However, there are no targets for individual countries.

Market access

Least developed country exports benefit from a number of preferential trading schemes, including the European Union "Everything but arms" initiative, which provides duty-free and quota-free market access to all products from all least developed countries. The European Union has also recently established more favourable rules of origin for least developed countries than for other developing countries. Most other developed countries also accord preferential treatment to products originating from the least developed countries, but not for all products. Other initiatives include the African Growth and Opportunity Act of the United States of America, for most African countries. In addition, a number of developing countries including Brazil, China, India and Turkey, have started to provide preferential treatment to products from the least developed countries.

Special and differential treatment with respect to World Trade Organization obligations

Least developed countries that are members of the World Trade Organization may benefit from special treatment with respect to World Trade Organization obligations safeguarding the interests of the least developed countries, including through increased flexibility for the least developed countries in rules and

[4] If the criteria were applied symmetrically, ceasing to meet a single criterion would be enough for a country to be considered eligible for graduation.

disciplines governing trade measures, the granting of longer transitional periods to the least developed countries and the provision of technical assistance. The least developed countries should also benefit from differential treatment with respect to accession to the World Trade Organization.

Support measures related to capacity-building

The Enhanced Integrated Framework was designed to assist the least developed countries in developing the necessary capacities in the area of trade, including by improving their supply response to trade opportunities and becoming better integrated into the multilateral trading system. Various United Nations departments and agencies organize capacity-building activities for the least developed countries.

Specific measures by the United Nations system

Several organizations of the United Nations system pay particular attention to the development challenges of the least developed countries through specifically targeted technical cooperation programmes or by earmarking a portion of their budgets for the least developed countries. That portion has increased over the past decade, with a number of agencies allocating more than half of their expenditures to programmes in least developed countries. Thus, five least developed countries are among the top ten recipients of United Nations development support.[5]

In addition, the United Nations provides financial support for the participation of representatives of the least developed countries in the annual sessions of the General Assembly. Likewise, a number of United Nations organizations and conventions have established voluntary financial mechanisms to fund the participation of representatives of the least developed countries in their processes. Furthermore least developed country contributions to the regular budget of the United Nations are capped at 0.01 per cent.[6]

The appraisal of these support measures before and during the Fourth United Nations Conference on the least developed countries has led to the conclusion that while support measures have increased in various areas, their impact on socio-economic development in least developed countries has been limited and varies considerably by country. Thus, the implications of losing access to least developed country-specific support measures after graduation need to be assessed for each country.

The graduation process

In accordance with General Assembly resolution 59/209 of 20 December 2004, the process by which a least developed country actually graduates from the list takes at least six years. With regard to meeting the criteria for graduation, each least developed country is considered by the Committee for Development Policy in its

[5] A/66/79-E/2011/107.

[6] This cap is applied regardless of the national income or other factors determining a Member State's assessment rate. A minimum contribution of 0.001 per cent is, however, required. Every least developed country is also entitled to a discount of 90 per cent on its contributions to peacekeeping operations.

triennial reviews.[7] Only after a country has been found eligible for graduation in two consecutive reviews may the Committee recommend the country for graduation in its report to the Economic and Social Council. After a country has met the criteria for graduation for the first time, the United Nations Conference on Trade and Development prepares a vulnerability profile and the Department of Economic and Social Affairs prepares an ex ante impact assessment report on that country.

A country is recommended for graduation only after a second review has been held and after two consecutive reports on that country indicate that its development prospects are sustainable. Then, the Economic and Social Council takes action on the recommendation of the Committee for Development Policy at its next substantive session and transmits its decision to the General Assembly, which takes note of the recommendation. A country graduates from the list of least developed countries three years after the Assembly has taken note of the recommendation of the Committee. During that three-year period, the country remains on the list of least developed countries and continues to benefit from the advantages associated with being on that list. The smooth transition period only starts after actual graduation.

Graduation from the list of least developed countries is a major milestone for the country involved, as it means that significant progress has been made towards reaching at least some of its development goals, as reflected in increased per capita income and human capacities and reduced economic vulnerability. Over the past four decades, only three countries have graduated from the list, namely Botswana (1994), Cape Verde (2007) and Maldives (2011). Samoa has been recommended for graduation and is expected to graduate from the category in 2014.[8]

While graduated countries lose access to the specific support measures for the least developed countries, graduation comes with new opportunities. Graduated countries continue to have access to general support measures aimed at helping developing countries to make progress in achieving sustainable development and the Millennium Development Goals, for example. In addition, middle-income country status means having better access to international capital markets. Moreover, such status is associated with a more favourable perception of the business environment, which is conducive to increased private investment, particularly foreign direct investment. Relatively large graduated countries could provide a gateway for investment in neighbouring countries and thus act as catalysts for growth, employment creation and poverty reduction in a whole region.

Existing provisions for the smooth transition strategy for countries graduating fro.n the list of least developed countries

To ensure that graduation from the list of least developed countries does not result in a disruption of development plans, programmes and projects, the General Assembly, in its resolution 59/209, re-emphasized the need for a smooth transition for graduating countries and outlined the process to ensure a smooth transition. It recommended that the Government of the graduating country establish, in cooperation with its bilateral and multilateral development and trading partners, a consultative mechanism to facilitate the preparation of the transition strategy and

[7] The next triennial review is scheduled to be held in 2012.

[8] Equatorial Guinea has also been recommended for graduation but the General Assembly has not yet taken note of the endorsement by the Economic and Social Council.

the identification of associated actions. The United Nations Conference on Trade and Development has been supporting graduating countries in the formulation and adoption of a smooth transition strategy by analysing, on a sector-by-sector or product-by-product basis, the extent to which the retention of least developed country treatment is vital for the continuation of development progress.

Also in resolution 59/209, the General Assembly invited the graduated country to closely monitor, with the support of the consultative mechanism, the implementation of the transition strategy and to keep the Secretary-General informed on a regular basis. It urged development partners to support the implementation of the transition strategy and to avoid any abrupt reductions in the assistance provided to the country. The Assembly invited trading partners to consider extending trade preferences or to reduce them in a phased manner. It invited all World Trade Organization members to consider extending to a graduated country, as appropriate, the existing special and differential treatment and exemptions available to the least developed countries for a period appropriate to the development situation.

In accordance with General Assembly resolutions 59/209 and 65/286 of 29 June 2011, the Committee for Development Policy monitors the development progress of graduated countries as a complement to its triennial review of the list of least developed countries. At the upcoming triennial review, in 2012, and as a follow-up to the Fourth United Nations Conference on the Least Developed Countries, the Committee is also expected to undertake a review and assessment of the current practices and provisions associated with the smooth transition process so as to identify and propose possible concrete actions to further strengthen existing mechanisms.

Recently graduated countries have expressed concern about the fact that the existing smooth transition strategy has not been working well in practice because there is no common understanding of what it implies and it is not clear who is responsible for it. Furthermore, the strategy lacks any concrete legislative mandate or guidelines for development partners to continue providing support, including development assistance, to a graduated country. At the moment, the responsibility for negotiating with development partners to ensure that least developed country benefits and privileges are not abruptly discontinued rests with the graduated country. Graduated countries have also expressed frustration about the fact that they have received little support from the United Nations or other international organizations in terms of capacity-building, advice or other important and concrete issues.

While expressing their appreciation to development partners for the extension of some least developed country benefits, graduated countries also expressed concern about the fact that these measures were taken in an ad hoc rather than systematic manner and that the benefits were not granted by all partners.

Furthermore, since the Programme of Action set the ambitious goal of enabling half of the least developed countries to meet the criteria for graduation by 2020, the smooth transition strategy needs to be strengthened in such a way as to assure graduating countries that they will not abruptly be deprived of all the benefits they were entitled to as least developed countries.

Many least developed countries and their development partners feel strongly, therefore, that the existing process should be strengthened so that future graduating countries will not face the immense challenges and uncertainties that recently graduated countries have faced. It is also important to clarify what graduation implies precisely and who is responsible for what.

At a side event to the meetings of the Second Committee held during the sixty-fifth session of the General Assembly, on enhanced international support and the smooth transition of least developed countries towards graduation, which was organized by the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, concrete smooth transition measures that have been granted to graduated countries were discussed. These measures include the extension by the European Union of duty-free and quota-free market access through the "Everything but arms" initiative for three additional years after graduation. Likewise, the Board of the Enhanced Integrated Framework has decided to extend access to the Framework to graduated countries by three years. The Board might consider extending such initiatives for a longer period of time on a case-by-case basis. In June 2011, the General Assembly, in paragraph 4 of its resolution 65/286, decided to extend travel-related support, within existing resources, to graduated countries for a period appropriate to the development situation of the country and for a maximum period of three years.

Mandate for the establishment of a working group on a smooth transition

In the Istanbul Declaration, States recognized that the graduation process of least developed countries should be coupled with an appropriate package of incentives and support measures so that the development process of the graduated country will not be jeopardized. In addition, they agreed to work on the development and implementation of smooth transition strategies for graduating and graduated least developed countries.[9]

Building on General Assembly resolution 59/209, in the Programme of Action it is stated that the measures and benefits associated with least developed country membership status need to be phased out consistent with their smooth transition strategy, taking into account each country's particular development situation.[10] It is also stated that it is crucial for graduating countries to take the lead in the development of smooth transition strategies with the support of their development and trading partners. Development and trading partners, including the United Nations system, should continue to support the implementation of the transition strategy and avoid any abrupt reductions in financial and technical assistance and should consider extending trade preferences to the graduated country, on a bilateral basis.[11] The General Assembly was invited to establish an ad hoc working group to further study and strengthen the smooth transition process.[12]

---

[9] *Report of the Fourth United Nations Conference on the Least Developed Countries, Istanbul, Turkey, 9-13 May 2011* (United Nations publication, Sales No. 11.II.A.1), chap. I, para. 14.

[10] Ibid., chap. II, para. 141.

[11] Ibid., para. 142.

[12] Ibid., para. 143.

Objectives of the working group

The general objective of the ad hoc working group is to strengthen the smooth transition process and to facilitate the widest consensus possible between graduating or graduated countries and their development partners, thus providing additional reassurance to least developed countries that they will not fall behind in their development.

In order to prepare a smooth transition strategy, an analysis of what measures will no longer be available and what the likely impact of this will be needs to be carried out in a country-specific manner. The working group should look at the process that leads to a smooth transition for graduating countries in general and make recommendations on how all stakeholders can contribute to making the process more effective and to providing additional incentives for graduation. The working group could also make recommendations on how to support graduating countries' efforts to effectively tap into the benefits associated with their new status.

The working group could make proposals on how a graduated country could retain special support measures for a longer period of time in order to avoid the negative impact of an abrupt end to the preferential treatment accorded to it as a least developed country. Most importantly, any such proposals would result in a smooth transition for graduating countries, since the risk that international assistance would drop significantly after graduation would be reduced.

Specific objectives of the deliberations of the working group could be:

(a) To review the existing smooth transition strategy, including the concessions and measures that have been granted by development partners to graduating or graduated countries;

(b) To analyse, by graduating country, the potential impact of losing access to specific support measures, in terms of both benefits and obligations;

(c) To assess the challenges faced by least developed countries and development partners, including international organizations, in negotiating and implementing smooth transition measures and determining the length of the transition period;

(d) To provide recommendations on how the incentives provided by smooth transition strategies and their implementation could be improved;

(e) To make specific recommendations on the continuation by all development partners of benefits for graduating countries in some critical areas and on phasing out such benefits in a gradual and structured manner, consistent with each country's development situation and needs.

Organization

The working group should be established by the General Assembly under the auspices of the President of the Assembly, who might consider designating two co-facilitators, one from a least developed country and one from a development partner. The core of the working group should consist of representatives of least developed countries and key development partners, as well as other developing and key countries, and aim for equitable geographical balance. In view of the open-ended nature of the group, other interested Member States should also participate in

the deliberations of the working group and make substantive contributions. The active participation of countries that graduated recently or that have been recommended for graduation will be crucial for the negotiation of smooth transition strategies.

The working group may hold an organizational meeting to discuss its work programme and as many meetings as are deemed necessary by the co-facilitators. The working group should draw on a number of experts, including from the United Nations system, World Trade Organization and other financial and development institutions, as well as academia. These experts should be invited to make presentations for the benefit of the members of the working group. The working group should also draw on relevant documents, for example reports prepared by the Department of Economic and Social Affairs, the Committee for Development Policy and the United Nations Conference on Trade and Development. The working group should prepare recommendations on improving the smooth transition process to the General Assembly at its sixty-seventh session with a view to submitting a new resolution on the issue.